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**2007 YEAR-END MEMBERSHIP REPORT OF
THE MASSACHUSETTS
INDIVIDUAL/SMALL GROUP MARKETS**

Following the July 1, 2007 Merger Required by Chapter 58 of
the Acts of 2006

January 6, 2009

Acknowledgements

The enclosed report was prepared by the Health Care Access Bureau (“HCAB”) staff of the Massachusetts Division of Insurance (“Division”). Kevin P. Beagan, Deputy Commissioner of the Health Care Access Bureau and Maryanne Walsh, Health Care Access Bureau Research Analyst, prepared the report and provided the analysis. The report is based primarily on responses from insurance carriers and the Commonwealth Health Insurance Connector (“Connector”) reflecting the experience of carriers in the health insurance market.

The Division makes all appropriate efforts to check the completeness and consistency of data reported by insurance carriers, but does rely on the insurance carriers for the accuracy of all reported information.

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INTRODUCTION

Chapter 58 of the Acts of 2006, An Act Providing Access to Affordable, Quality, Accountable Health Care (“Chapter 58”), merged the Individual and Small Group markets effective July 1, 2007. As of July 1, 2007, every insurance carrier offering health benefit plans in the Massachusetts Small Group market is required to make every health benefit plan available to all eligible individuals and all eligible small businesses that it similarly provides to any other eligible individual or eligible small business. In addition, every insurance carrier is required to accept for enrollment any and all eligible individuals and eligible small businesses.

Chapter 58 also developed young adult health benefit plans to be offered only through the Commonwealth Health Insurance Connector (“Connector”) created under M.G.L. c. 176Q. These plans may only be purchased by individual Massachusetts residents age 18 through 26.

The goal of this report is to provide an overview of the Individual and Small Group health insurance markets in Massachusetts prior to July 1, 2007, and to summarize the membership changes for individual and small group purchasers of health insurance as a result of the merger of the Massachusetts Individual and Small Group health insurance markets pursuant to Chapter 58 of the Acts of 2006.

NONGROUP MARKET PRIOR TO THE MARKET MERGER ON JULY 1, 2007

Prior to July 1, 2007, Massachusetts Individual and Small Group health insurance policies were regulated separately, and were premium rated in separate risk pools. Nongroup (individual) health insurance was regulated by M.G.L c. 176M and regulation 211 CMR 41.00.

Beginning on November 1, 1997, health carriers were allowed to offer only two types of standardized Nongroup guaranteed issue health plans. One plan offered by a carrier was required to include, at a minimum, a standard set of benefits and standard cost-sharing levels. In addition, carriers were allowed to offer an alternate plan with the standard benefits (although they could exclude prescription drugs), but with reduced cost-sharing levels. In addition, all in force Nongroup plans that had been offered prior to November 1, 1997 were required to be continued for already enrolled members and were considered to be closed blocks of business that could not be offered to new enrollees.

The standardized Nongroup guaranteed issue health plans offered very comprehensive coverage. Prior to July 1, 2007, these health plans had been required to be offered on a guaranteed issue basis, with continual open enrollment. The premium rates for these health plans had been reviewed and approved by the Division annually. Premium rates had been allowed to differ only based on the specific rating factors allowed under M.G.L. c. 176M and regulation 211 CMR 41.00.

The membership in Nongroup guaranteed issue health plans increased from 18,136 members as of December 31, 1998 to 41,837 members as of December 31, 2006 (the last reporting period prior to the market merger on July 1, 2007), and then decreased to 22,004 members by the end of 2007. The membership in the closed Nongroup health plans steadily decreased from 66,896

members as of December 31, 1998 to 6,250 members as of December 31, 2006 (the last reporting period prior to the market merger on July 1, 2007), and then decreased further to 3,023 members by the end of 2007.

**Massachusetts Nongroup Guaranteed Issue Plan and Closed Nongroup Plan Membership
by Year¹**

Year	Guaranteed Issue Plan Membership	Closed Plan Membership	Total Nongroup Plan Membership	Annual Change in Membership
1998	18,136	66,896	85,032	
1999	31,826	47,431	79,257	(5,775)
2000	33,966	23,590	57,556	(21,701)
2001	33,330	18,456	51,786	(5,770)
2002	36,926	15,225	52,151	365
2003	42,726	12,734	55,460	3,309
2004	44,920	10,874	55,794	334
2005	45,202	7,605	52,807	(2,987)
2006	41,837	6,250	48,087	(4,720)
2007	22,004	3,023	25,027	(23,060)

**SMALL GROUP MARKET PRIOR TO THE MARKET MERGER ON
JULY 1, 2007**

Prior to July 1, 2007, Massachusetts Small Group health insurance policies were regulated separately from Massachusetts Individual health insurance policies. Small Group health insurance (employers with 50 or fewer employees, including sole proprietors) was regulated by M.G.L. c. 176J and regulation 211 CMR 66.00.

Insurance carriers were permitted to offer as many health plans in the Small Group market as they deemed fit, and were not limited by type of plan. However, the insurance carrier was required to make every health benefit plan available to all eligible small businesses that it similarly offered to any other eligible small business. The carrier was also required to accept any eligible small business for enrollment.

Premium rates were only allowed to differ based on the specific rating factors allowed by M.G.L. c. 176J and regulation 211 CMR 66.00. The base premium rates for all small groups were mandated to be within a 2:1 rate band for a particular rating period. Every insurance carrier was required to file an annual actuarial opinion stating that the carrier's rating methodologies and rates complied with the requirements of M.G.L. c. 176J and 211 CMR 66.00, on a retrospective basis.

The membership in small group health plans increased from 712,213 members as of December 31, 1998 to 804,068 members as of December 31, 2007. Please note that the membership in small group health plans fluctuates based on the economic situation.

¹ Based on the annual Nongroup Guaranteed Issue Membership Reports and the annual Closed Nongroup Membership Reports currently on file with the Division.

Massachusetts Small Group Plan Membership by Year²

Year	Small Group Plan Membership	Annual Change in Membership
1998	712,213	
1999	741,917	29,704
2000	764,708	22,791
2001	817,757	53,049
2002	799,854	(17,903)
2003	766,139	(33,715)
2004	772,834	6,695
2005	759,922	(12,912)
2006	821,652	61,730
2007	804,068	(17,584)

JULY 1, 2007 MARKET MERGER PURSUANT TO CHAPTER 58

Chapter 58 changed the Massachusetts Individual and Small Group health insurance markets by merging the two markets into one market effective July 1, 2007. Insurance carriers combined their Individual and Small Group business, and they are now required to make every health benefit plan available to all eligible individuals and all eligible small businesses that they similarly provide to any other eligible individual or eligible small business on a guaranteed issue basis. As of July 1, 2007, the aforementioned Nongroup guaranteed issue health plans could no longer be offered to new enrollees, and were thereafter considered closed blocks of business.

The newly merged market is regulated by M.G.L. c. 176J and regulation 211 CMR 66.00. The rating methodology is similar to the rating standards described above for the Small Group market prior to July 1, 2007, with some modifications. Insurance carriers must now use the same rating methodology for individuals (previously considered Nongroup) and small groups. The base premium rates may vary according to defined factors but must be within a 2:1 rate band for a particular rating period. Insurance carriers must file an annual actuarial opinion stating that the carrier's rating methodologies and rates comply with the requirements of M.G.L. c. 176J and 211 CMR 66.00, now on a prospective basis.

In addition to the above-noted changes, Chapter 58 created an additional distribution channel for individual and small group health insurance, the Connector. Individuals and small groups may purchase from the Connector a limited number of products, named Commonwealth Choice Plans. These same products that can be purchased from the Connector can also be purchased directly from insurance carriers. In addition, Chapter 58 allowed for the creation and distribution of young adult health benefit plans, which can only be obtained from the Connector. These plans may only be purchased by individual Massachusetts residents age 18 through 26.

² Based on the annual Small Group Membership Reports currently on file with the Division.

RESULTS OF THE MERGER OF THE MASSACHUSETTS INDIVIDUAL AND SMALL GROUP HEALTH INSURANCE MARKETS

It was estimated that the merger of the Massachusetts Individual and Small Group health insurance markets would result in a membership shift. The membership in the Nongroup guaranteed issue health plans was expected to decrease as these plans were no longer being offered to new enrollees. In addition, the membership in the closed Nongroup health plans was expected to continue to decline for the same reason. Nongroup members were anticipated to shift into the newly merged health insurance market as individual purchasers, due to increased product options and more moderate premium rates. In addition, it was expected that as the young adult health benefit plans were developed and implemented, they would show an increase in membership over time.

As a result of the merger, the combined Nongroup closed and guaranteed issue plans decreased by 23,060 members from December 31, 2006 to December 31, 2007. Whereas, the merged market health plans purchased by individuals increased by 36,616 members from December 31, 2006 to December 31, 2007, the Commonwealth Choice plans purchased by individuals increased by 11,426 members from December 31, 2006 to December 31, 2007, and the young adult health plans purchased by individuals increased by 3,238 members from December 31, 2006 to December 31, 2007. This resulted in an overall increase in individual membership of 28,220 for the period.

Massachusetts Membership by Product Type: Results of the Merged Market³

	2006	2007	Annual Change in Membership
Nongroup Closed and Guaranteed Issue Plans	48,087	25,027	(23,060)
Individuals in Merged Market Plans⁴	0	36,616	36,616
Individuals in Commonwealth Choice Plans	0	11,426	11,426
Young Adult Plans	0	3,238	3,238
Total Individual Plan Membership	48,087	76,307	28,220

³ Based on the annual Nongroup Guaranteed Issue Membership Reports, the annual Closed Nongroup Membership Reports, and the annual Small Group Membership Reports currently on file with the Division.

⁴ This category does not include membership in plans purchased from the Connector, Commonwealth Choice plans.

